

ARGENTINA
INFLATION REPORT

ECONOMIC SECTION

U.S. EMBASSY

BUENOS AIRES

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SUMMARY

The official Consumer Price Index (CPI) was 0.6 percent in October 2003 - suggesting continued price stability. This brings 12-month inflation to 4.0 percent. Clothing and Food and Beverages were the CPI components with the highest increases in October. Average nominal salaries increased 0.84 percent in September over August 2003 and the purchasing power of salaried workers in September was an average 7.3 percent higher than what it was in December 2002. CPI inflation predictions for 2003 by 16 well-known think-tanks average 3.9 percent. The National Bureau of Statistics and Census (INDEC) inflation projection for 2003 is 3 percent, assuming no price increases in public services. The GOA calculated in May 2003 that 54.7 percent of the population lives below the poverty line. Therefore, any increase in the cost of living has a profoundly negative impact on large sectors of the population. This is one of the reasons why the Kirchner government has so far resisted increases in public utility tariffs. End summary

THE CONSUMER PRICE INDEX

The official Consumer Price Index (CPI) was 0.6 percent in October 2003 - suggesting continued price stability. This brings 12-month inflation to 4.0 percent. CPI increased 3.2 percent since the end of 2002. Prices of goods increased 0.8 percent while prices of services increased 0.2 percent in October. Goods and Services prices grew 2.8 percent and 3.9 percent, respectively, since the end of 2002. The official CPI only measures inflation in the Greater Buenos Aires urban area.

The highest monthly price rise was a 1.6 percent increase for Clothing, followed by 1.5 percent for Food and Beverages. National Bureau of Statistics and Census (INDEC) officials say that these increases are due to seasonal reasons. Prices of Education Services grew 0.6 percent. Clothing, Miscellaneous Goods and Services, and Housing are the three CPI components with the greatest increases since December 2002. The increases were 7.4, 6.3 and 4.5 percent, respectively.

TABLE ONE
CONSUMER PRICE INDEX (1999=100)

YEAR	END OF PERIOD	PCT CHG PREV YR
1998	101.7	0.7
1999	99.9	-1.8
2000	99.1	-0.7
2001	97.6	-1.5
2002	137.6	41.0

	AVERAGE	PCT CHG PREV MO
2002		
JUL	131.4	3.2
AUG	134.5	2.3
SEP	136.3	1.3
OCT	136.6	0.2
NOV	137.3	0.5
DEC	137.6	0.2

2003		
JAN	139.4	1.3
FEB	140.2	0.6
MAR	141.0	0.6
APR	141.1	0.1
MAY	140.5	-0.4
JUN	140.4	-0.1
JUL	141.0	0.4
AUG	141.0	0.0
SEP	141.1	0.0
OCT	142.0	0.6

Source: National Bureau of Statistics and Census (INDEC).

POVERTY AND DESTITUTION LEVELS

INDEC also publishes a monthly estimate on the values of a "total consumption basket" and a "food consumption basket". They are based on the nutritional requirements of people of different ages and other consumption habits. These estimates determine the poverty line and the destitution line, respectively. The poverty line was valued at \$246.44 and the destitution line was valued at \$112.53 for a family

of four in October 2003. The family of four considered includes a man and a woman in their thirties, a five-year-old boy and an eight-year-old girl. The peso value of the poverty line increased 1.6 percent in October over September 2003, and it decreased 1.6 percent since May 2003. The number of people below the poverty line was 54.7 percent of total urban population in May 2003, when the Kirchner government took office and when the last national survey on households' incomes was performed. The peso value of the destitution line increased 2.1 percent in October over September 2003, and it decreased 2.3 percent since May 2003. The number of people below destitution line was 26.3 percent of total urban population in May 2003.

Analysts in the private consultancy firm Equis estimate that the increase in the October CPI caused 230,000 additional people to fall below the destitution line, even though the increase in the CPI was largely due to seasonal factors. The number of people below the destitution line had decreased during the previous six months, so the study concludes that people below the destitution line would be approximately 25.5 percent of total population today (down from 26.3 percent in May 2003).

AVERAGE NOMINAL SALARIES

Average nominal salaries increased slightly more than monthly inflation during September 2003. INDEC estimated that average nominal salaries increased 0.84 percent in September over August 2003, whereas there was no inflation during that period. The average nominal increase was due to a 0.3 percent rise in salaries for formal employees, a 2.7 percent increase for informal employees in the private sector, and a 0.8 percent increase for employees in the public sector.

Salaries grew by 10.1 percent between December 2002 and September 2003. This increase is mainly due to a 13.6 percent nominal increase in private sector formal salaries for that period. Therefore, the purchasing power of salaried workers in September rose an average 7.3 percent over what it was in December 2002.

WHOLESALE PRICE INDEXES

The Wholesale Price Index (IPIM) increased 0.6 percent during October 2003, bringing the total IPIM change since the end of 2002 to a negative 0.8 percent. This index measures the price changes of national products (including primary products and manufactured goods and electric power) and imports sold in the domestic market. The IPIM also includes taxes. IPIM national product prices increased 0.7 percent in October. This was due to a 1.8 percent increase in primary product prices and a 0.4 percent increase in the "manufactured goods and electric power" price category. Import prices decreased by 1.0 percent during the same period.

The Wholesale Basic Prices Index (IPIB) has the same coverage as the IPIM. However, the IPIB does not include taxes. The IPIB increased 0.7 percent in October, bringing the total IPIB increase since the end of 2002 to a negative 2.2 percent. IPIB national product prices increased 0.8 percent in October. Import prices decreased by 1.0 percent during the same period.

The prices for the sectors measured in the IPIM and IPIB are weighed using the corresponding value of product net of exports. INDEC has devised another index, the Basic Prices to Producers Index (IPP), whose weights are calculated considering sales in the internal market as much as sales to the external market and excluding imports and taxes. The IPP increased 1.2 percent in October, bringing the total IPP increase since the end of 2002 to a negative 1.3 percent. Primary products increased 2.5 percent in October and Manufactured Goods and Electric Power increased 0.7 percent.

CONSTRUCTION PRICES

The INDEC index measuring private housing construction costs in Greater Buenos Aires increased 0.6 percent during October 2003. These costs were 5.8 percent higher than those prevailing at the end of 2002. This monthly rise is the result of a 0.2 percent increase in the cost of materials, a 1.3 percent increase in the cost of labor and a 0.9 percent growth in other construction costs. Wages of salaried employees working for the sector rose 1.9 percent whereas payments to the self-employed increased by 0.4 percent. Professional fees are not included among the labor costs considered by INDEC in the construction sector.

INFLATION PREDICTIONS FOR 2003

CPI inflation predictions for 2003 by 16 well-known think-tanks average 3.9 percent. These predictions range from a minimum of 2.9 to a maximum of 6.0 percent. These projections are lower than the ones predicted earlier this year; the previous predicted average was 5.1 percent. The same think-tanks predict a 7.9 percent inflation rate for 2004.

INDEC's inflation projection for 2003 is 3 percent, assuming that there will be no price increases in public services (this is unlikely before the end of 2003 given the current political climate). However, the GOA's official inflation estimate for 2003 is 6 percent, as established in the Memorandum of Economic and Financial Policies for the IMF. The official inflation projection in the 2004 budget bill is 10.5 percent.

COMMENT

The GOA calculates that 54.7 percent of the population lives below the poverty line and 26.3 percent of the population lives below the destitution line. Therefore, any increase in the cost of living has a profoundly negative impact on large sectors of the population. This is one of the reasons why the Kirchner government has so far resisted increases in public utility tariffs.